United States Court of Appeals

for the Second Circuit

APPELLANT'S BRIEF

ORIGINAL

74-1585

This brief contains information designated as confidential by Xerox Corporation and is filed under seal pursuant to the order entered herein by the United States District Court for the District of Connecticut on January 8, 1974.

United States Court of Appeals
FOR THE SECOND CIRCUIT

SCM CORPORATION,

Plaintiff-Appellant,

against

XEROX CORPORATION,

Defendant-Appellee.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF CONNECTICUT

BRIEF OF PLAINTIFF-APPELLANT SCM CORPORATION

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Note Regarding Confidentiality

This brief contains descriptions of matters in the Record below that were designated as "Confidential" by Xerox. Thus, pursuant to the "Protective Order" respecting treatment of confidential documents entered by the district court at Xerox's suggestion on January 8, 1974, this brief is being filed under seal and bears a legend regarding confidentiality on the cover.

SCM is filing herewith its Appendix (hereinafter referred to as "A" followed by the referenced page) which is not under seal since it contains no matters designated as "Confidential" by Xerox.

SCM is also filing herewith three volumes of Exhibits and Other Papers (hereinafter referred to as "E" followed by the referenced page). These volumes do contain matters designated as "Confidential" by Xerox and accordingly they too are being filed under seal and bear legends regarding confidentiality on their covers.

BRIEF OF PLAINTIFF-APPELLANT SCM CORPORATION

This expedited appeal by plaintiff SCM is from the decision and order, denominated "Pre-Trial Ruling No. 6", entered in this antitrust action on April 19, 1974 by the court below, the United States District Court for the District of Connecticut, Hon. Jon O. Newman.

That ruling denied SCM's motion for a preliminary injunction which had been made on July 31, 1973 and renewed on November 16, 1973. The court below denied the motion as a matter of law; refused to hold an evidentiary hearing as requested by SCM; and held that SCM's requests for relief were legally insufficient.

That denial, together with the court's prior denial of SCM's alternative motion for prompt trial of the antitrust liability issues and severance and stay of the damage and other issues, had the effect of locking the courthouse doors against any evidentiary consideration of SCM's claims for preliminary injunctive relief; and deferring into the indeterminate future any consideration of its claims for permanent injunctive relief. Thus, assuming an evidentiary hearing would demonstrate the certainty or likelihood of SCM's ultimate success on the merits, this leaves SCM and the public without any possible redress for Xerox's alleged wrongs and their effects during the pendency of the action, and means that the imposition of permanent injunctive relief is many years away.

On this appeal, SCM respectfully contends that the court below committed fundamental error in its Pre-Trial Ruling No. 6. SCM requests that such Ruling be vacated, and that the matter be remanded with directions for a prompt evidentiary hearing on its preliminary injunction motion.

Issues Presented

A. Should plaintiff have been deprived of an evidentiary hearing on its preliminary injunction motion?

B. Assuming plaintiff can demonstrate at an evidentiary hearing the truth or likely truth of its claims that defendant is engaged in continuing antitrust violations, can it be determined as a matter of law in advance of any evidentiary hearing:

(1) that plaintiff cannot conceivably show any possible resulting irreparable injury to itself, to other competitors and to the public?

(2) that the court lacks power to fashion and grant any form of equitable relief restraining any of the alleged antitrust violations or their unlawful effects during the pendency of this action?

C. In determining the issue of the legal sufficiency of plaintiff's preliminary injunction motion, an issue framed by the court below as arising under the principles applicable to a Rule 12(b)(6) motion to dismiss a complaint:

(1) does the court lack power to grant any one or more of the particular forms of relief specifically requested in plaintiff's amended complaint?

(2) assuming *arguendo* that plaintiff here requested the wrong relief in its amended complaint, should the court have refused to consider the general prayer for alternative relief, and should the court have refused to consider whether there are any other conceivable forms of relief which it possesses power to fashion and grant, including those requested and specified by plaintiff during the briefing below?

Statement of the Case

The Parties

Xerox has been engaged in the manufacture and marketing of plain paper office copiers since 1960 (A75). It was the only such manufacturer and marketer in the United States until 1970, when IBM made entry (A43, 75). With its subsidiary and affiliated corporations, it engages in research and development, manufacturing and marketing throughout the world (A83).

SCM is and has been engaged in the different but related field of the manufacture and marketing of coated paper office copiers in the United States and internationally (A22, 74). In December, 1973, SCM began marketing one model of plain paper office copier which it purchases from a small company named Van Dyk Research Corp. (E282). SCM has also been attempting to develop its own plain paper office copier, which it hopes to bring to market by 1975 (A22, 74, E282).

The Nature of SCM's Claims in This Action

SCM charges Xerox with violation of each of three provisions of the antitrust laws. It alleges (1) that Xerox is monopolizing and attempting to monopolize the skill and technology of plain paper office copying, and the manufacture and marketing of plain paper office copiers in violation of Section 2 of the Sherman Act; (2) that various of Xerox's prior and continuing exclusive and other agreements constitute contracts, agreements, conspiracies and combinations unreasonably restraining trade and commerce in each of those fields of endeavor in violation of Section 1 of the Sherman Act; and (3) that various of Xerox's prior and threatened acquisitions from others of stock, patented and unpatented technology and other assets have the probable effect of substantially lessening competition or tending to create a monopoly in each of those fields of endeavor in violation of Section 7 of the Clayton Act (A21, 73-74).

SCM's First Claim, solely for equitable relief under Section 16 of the Clayton Act, alleges that such violations will continue to result in irreparable injurious effects to SCM, other competitors and the public, and that the court should therefore grant preliminary and permanent injunctive relief (A23-60, 74-92). Xerox has never pleaded or contended that SCM's First Claim fails to state a claim on which permanent injunctive relief may be granted. Indeed, it has conceded that if the allegations of that claim are sustained, SCM will be entitled to permanent injunctive relief, including a decree rendering Xerox's patents unenforceable (E388).

SCM's Second Claim under Section 4 of the Clayton Act seeks treble the amount of its alleged past damages (A60-61, 93).

SCM's Third Claim involves the alleged invalidity and unenforceability of a single patent which Xerox previously acquired by purchase and which it has attempted to enforce against SCM in the different but related field of coated paper office copying (A63-66, 94-97). That patent, issued in 1964 on an application originally filed in 1949 (A121), is also the subject of Xerox's first two counterclaims against SCM (A108-110), and four other prior actions brought by Xerox against other manufacturers of coated paper office copiers (A65). Xerox's third counterclaim against SCM involves the alleged infringement by SCM's coated paper office copiers of another patent which Xerox previously acquired by purchase, and which was issued in 1971 on an application originally filed in 1952 (A111, 122).

The Relevant Proceedings, Court Rulings and Submissions by the Parties

SCM's first goal in this litigation, which it has continued to announce since the outset of this action nearly a year ago, has been to secure expeditious judicial consideration of its equitable antitrust claims for prospective interim and permanent injunctive relief (A55, 67, 68, 87, 91-92, 115-19; E691-92). Those claims, if true, are of singular public and private urgency and importance because Xerox threatens to use its existing monolithic power in the many years ahead to maintain its present domination of the technology, manufacture and marketing of plain paper office copiers. If, as SCM has asserted from the outset of this action (E118-121, 266, 691-92), the truth or likely truth of its allegations can be promptly sustained, effective judicial action should and can be promptly implemented to prevent the commission of further likely illegal acts; to curb the injurious effects of Xerox's past anti-competitive acts; to prevent the further entrenchment of Xerox's power; to prevent Xerox from further increasing the barriers to competition; and to create the possibility of real competition in the reasonably foreseeable future.

All of Xerox's steps in this litigation are unequivocally referable to its goal of avoiding any preliminary adjudication and evidentiary consideration of the merits of SCM's antitrust claims for injunctive relief during the pendency of the action, and to its further goal of delaying into the indeterminate future any plenary adjudication on the merits of SCM's equitable antitrust claims for permanent injunctive relief.

As the events of the past year testify, Xerox has thus far achieved both of its goals.

1. SCM's Complaint and Preliminary Injunction Motion of July 31, 1973

SCM served and filed its complaint on July 31, 1973.[1] Rather than the usual general request that the court grant preliminary and permanent injunctive relief to restrain Xerox's alleged violations and their effects, the complaint spelled out various particular forms of relief which should be granted (A54-60), and went on to request such other and further relief as the court may deem just and proper (A66). The complaint also specifically alleged the reasons why the interests of the public and SCM required the promptest possible adjudication of SCM's First Claim for equitable relief, and why, in order to expedite disposition of the First Claim, there should be a stay of proceedings relating to the damage and patent issues raised by SCM's Second and Third Claims (A22-23, 55, 60-62, 65-66). SCM did not demand a jury trial on any of its claims.

When it commenced this action, SCM also simultaneously served and filed its motion for a preliminary injunction (A67) and its motion for a court conference (A68-69) to consider, among other things, the scheduling of an evi-

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[1] Also on July 31, 1973, SCM served and filed a single set of interrogatories and document requests. Over SCM's strong objection, the court ruled that Xerox would be allowed until April 1, 1974 to complete its responses to some of those interrogatories and document requests, and until June 15, 1974 as to many others (E357-360).

dentiary hearing on the preliminary injunction motion. The preliminary injunction motion was based on allegations in the First Claim, many of which were factual allegations drawn from published or then-public Xerox statements and documents,[1] and on the evidence to be adduced at the requested hearing (A67). The motion sought particular forms of preliminary relief specified in certain other paragraphs of the First Claim, and requested such other or further or alternative relief as the court may deem just and proper on the showing made (A67).

2. The Deferral of Consideration of SCM's Preliminary Injunction Motion; Xerox's Successful Procedural Motion to Strike the Complaint; the Subsequent Pleadings and Xerox's Jury Trial Demand

Conferences were held with the court below on September 12 and September 21, 1973. In those untranscribed conferences, SCM's counsel explained that the evident issues of ultimate fact, the need for testimonial evidence and the high degree of specificity of SCM's factual and legal allegations all demonstrated that an evidentiary hearing undoubtedly would be required on SCM's preliminary injunction motion. SCM's counsel alluded to the then recent *SEC-Vesco* preliminary injunction proceedings, where, after submission of mountains of paper, the district court had concluded that an evidentiary hearing was required. Therefore, as SCM's counsel stated, SCM had not undertaken a prior submission of papers which would have required a like submission by Xerox of opposing papers, and which would only delay the inevitable evidentiary hearing. SCM instead suggested that an evidentiary hearing be scheduled without that further delay.

The court below never disapproved of this more expeditious approach to the presentation by the parties of their

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[1] See ¶¶ 12-15, 17-31, 33, 34, 43-44, 46-52, 54, 60, 62-65, 68-75, 77, 81, 94, 96-97, 100, 103, 104, 106-110, 115-119, 121-122, 127-130, 132-134, 135(a-d), 137 and 170(c) of the original complaint (A24-29, 32-40, 43-48, 50-53 and 62; see also E33, 118-119 and 126-127).

supporting and opposing evidence on SCM's preliminary injunction motion; and during the conferences, Xerox did not object to this approach, although it did some six months later (E715). That objection played no part in the court's decision of April 19, 1974 denying SCM's preliminary injunction motion and request for an evidentiary hearing on that motion.

Further discussion of various subjects, including the scheduling of an evidentiary hearing of SCM's preliminary injunction motion and Xerox's legal objections to such a hearing, were deferred by the court on September 12, 1973 to an "indefinite date" (A3), pending determination of a procedural motion by Xerox to strike the First and Third Claims of the complaint and until the pleadings were closed. Xerox claimed that SCM's First Claim improperly contained too much alleged evidentiary detail; quoted or summarized matters from various published Xerox statements and from Xerox's Answer in a Federal Trade Commission proceedings; and was too long and prolix[1] (E3).

SCM argued that such a motion is disfavored and should be granted only in the most unusual circumstances not present here; that the pleading rules do not forbid specific and precise factual allegations; that the First Claim presented SCM's claims of a broad spectrum of violations by Xerox in an orderly and coherent manner; and that the complaint, if answered by Xerox, would facilitate prompt discovery and adjudication of the substantive issues by speedily delineating facts not genuinely disputed as well as genuine factual issues (E23-50). Nevertheless, on October 9, 1973, the court below granted Xerox's motion of September 14, to strike the First Claim of the complaint[2] (E51).

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[1] Xerox also claimed that SCM's Third Claim was improper because it incorporated other matters by reference (E19).

[2] In its decision of October 9, the court below did not discuss and disregarded the principles expressed in the various authorities on which SCM relied most heavily in support of its position (E26-

(footnote continued on following page)

SCM's amended complaint was served on November 2, 1973. It set forth its factual allegations in more general and conclusory terms (thus more easily generally denied), and in the manner prescribed by the district court's ruling of October 9, 1973. Like the original complaint, it spelled out various particular forms of preliminary and permanent injunctive relief which should be granted (A87-92), and went on to request "such other preliminary injunctive relief as may be appropriate" (A92). It also requested generally "such other and further relief as this Court deems just and proper as to each Claim" (A97).

The particular forms of prohibitory preliminary injunctive relief described in the amended complaint consisted of restraints against Xerox during the pendency of the action from threatening, instituting or maintaining any patent infringement or other action or claim against SCM, here or abroad, with respect to SCM's efforts to develop and market plain paper office copiers, or which might delay final adjudication of SCM's First Claim (¶¶ 49, 50; A91). SCM also specifically requested that Xerox be restrained during the pendency of the action from attempting to enforce restrictive agreements restraining Xerox personnel from engaging in plain paper office copying activities for any other company following termination of employment with Xerox (¶ 53; A92).

The particular forms of mandatory preliminary injunctive relief described in the amended complaint consisted of an injunction requiring Xerox to grant SCM a license with respect to all of its United States and foreign patents and patent applications during the pendency of the action; and requiring Xerox to disclose its present short and long

(footnote continued from preceding page)

32). See, *e.g.*, Report of the Attorney General's National Commission to Study the Antitrust Laws at p. 362 (1955); *Atwood* v. *Humble Oil & Refining Co.*, 243 F.2d 885 (5th Cir. 1957), *cert. denied*, 355 U.S. 829 (1957); *Atlantic City Electric Co.* v. *General Electric Co.*, 207 F. Supp. 620 (S.D.N.Y. 1962); 2A Moore's Federal Practice at 2429-34 (1972).

range plans for the manufacture and marketing of plain paper office copiers (¶¶ 51, 52; A92).

Although it had never done so before in any of the several other patent or antitrust litigations in which it is or has been a plaintiff or a defendant, on November 12, 1973 Xerox with its answer demanded trial by jury of the issues in this action (A113).

Without more, and because of the doctrine of *Beacon Theatres, Inc.* v. *Westover,* 359 U.S. 500 (1958), Xerox's tactic defeated SCM's original request in its complaint of July 31, 1973 for severance and prompt trial of its First Claim solely for prospective equitable relief (¶¶ 145, 170, 180; A55, 61, 65). It also contributed mightily to Xerox's subsequent success in defeating SCM's motion of November 16, 1973 for severance and prompt plenary jury trial of only the antitrust liability issues.

3. SCM's Motion of November 16, 1973, Including Its Renewed Preliminary Injunction Motion and Its Submission of Documentary Evidence

Once the pleadings were closed on November 12 (except for SCM's reply to the patent counterclaims), SCM moved promptly and, ultimately, unsuccessfully, for severance and prompt jury trial of the antitrust liability issues underlying SCM's claims for equitable and legal relief, and for a stay of proceedings relating to the damages and patent issues raised by SCM's Second and Third Claims (A117-119, 124-131). SCM's motion, made under Rule 42(b), was an attempt to accommodate, in an efficient manner, Xerox's claimed right to a jury trial with SCM's claimed right to expeditious treatment of its antitrust claim for permanent equitable relief (E164, 261). SCM believed its suggested procedure to be one of the "flexible procedures" of the Federal Rules suggested by *Beacon Theatres* (359 U.S. at 511). Among other things, the relief SCM sought would have at least avoided delaying adjudication of the claim for injunctive relief during the

massive discovery Xerox promised on the damage issues (E172-73).[1]

Alternatively, in its motion of November 16, 1973, SCM moved for the scheduling of an evidentiary hearing on its concurrently made preliminary injunction motion (par. B., A118). SCM's preliminary injunction motion of November 16, 1973 (which was a renewal of its July 31, 1973 motion), was again based on allegations in the First Claim, and on the evidence to be adduced at a hearing. It sought the specific interim relief set out in the Amended Complaint, and such other or further or alternative relief as the court might find just and proper (A115).

SCM's position on its motion for severance and prompt trial of the antitrust liability issues and stay of other proceedings, was bottomed on its belief, supported by the evidence it submitted, that there was little or no genuine issue as to proper market definition,[2] that, therefore, protracted

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[1] SCM sought a stay respecting the patent involved in SCM's Third Claim and Xerox's first two counterclaims. That patent is the subject of four long-pending actions commenced by Xerox against others, one of which then was soon to be tried and which is presently on trial. SCM contended (A118) that proceedings regarding this patent ought to be stayed under the *Blonder-Tongue* doctrine in order to avoid a "misallocation" of the resources of the court and the parties since a decision adverse to Xerox in the other litigations would collaterally estop Xerox from relitigating those patent issues here. *Blonder-Tongue* v. *University of Illinois Foundation*, 402 U.S. 313, 329, 338, 348 (1971). SCM also contended that litigating the patent issues might be wasteful because, as Xerox has conceded, if SCM is successful in establishing its antitrust contentions, Xerox's patents will be rendered unenforceable (E171-72, 388). The court below denied that stay in its rulings of January 3, 1974 and February 22, 1974 (A124; E175).

[2] SCM did not, as the court said in its January 3, 1974 ruling denying this motion, advance only "bare allegations" concerning the market definition issue (A127); and SCM did not, as the court said, make "merely the assertion" that its position as to relevant market will prevail (A126). SCM submitted a number of Xerox documents which SCM contended made a *prima facie*, if not conclusive, demonstration that plain paper office copying constitutes a relevant "submarket" under principles well-established under a long line of Supreme Court and other decisions (E179-98, 289-90, 777-968).

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discovery sought by Xerox on that major issue was not needed; that only limited discovery was needed on other liability issues; and that, as a result, plenary jury trial could take place in about six months, by May 1, 1974, if the parties devoted themselves to diligent preparation for that trial (E177-198). SCM asserted that if the court agreed with those contentions, a separate hearing on its preliminary injunction motion would not then be needed (E315-16). Alternatively, if the court were to reject those contentions, SCM asked the court to schedule May 1, 1974 as the commencement date for an evidentiary hearing on the preliminary injunction motion (E198, 314).

In further support of its alternative motions of November 16, SCM submitted to the court below four binders of evidentiary documents (E777-968). However, the court below did not deem it necessary in either its January 3 or April 19, 1974 rulings to give the slightest hint that the record contained such substantial documentary evidence. SCM contended that this evidence, particularly the extracts from Xerox's voluminous 1972 Long Range Plan for the coming decade, provided strong support for SCM's claims of threatened irreparable injurious effects, including the further entrenchment of Xerox's power and the ever-

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Such evidence included prior judicial admissions by Xerox that plain paper office copying constituted a different area of commercial activity from coated paper office copying (E189, 824-25); internal and published Xerox documents describing the many unique characteristics of plain paper office copying (E847); and other internal Xerox documents asserting that coated paper office copying, offset duplicating, and other means of duplicating are only "fringes" to the "heartland" of Xerox's plain paper office copying activities (E862, 895).

Xerox's chief executive officer in 1972 made the crucial admission that plain paper office copying was a distinct area or "submarket" of competitive or commercial activity for antitrust purposes, by stating (E836):

> "We [Xerox] had the first plain paper copier, as we call it, and to date the only real competition we have had, with some minor exceptions in Japan, is from IBM. They've been in the market since April, 1970. . . ."

increasing barriers to competition during the pendency of the action if Xerox's projected acts and practices were permitted to occur without judicial restraint (E166-67, 187-90, 279-90, 679-82).

The record before the court below set out Xerox's objectives for the forthcoming decade. As expressed in its 1972 Long Range Plan, one of Xerox's objectives is to "maintain technical supremacy in the copying and duplicating part of our business" (E893). That Plan shows in detail how Xerox expects to maintain existing technical supremacy, and also how it plans to maintain its consequent supremacy over the manufacture and marketing of plain paper office copiers (E863-933).

Thus, Xerox's Plan projects that Xerox's spending with respect to research and engineering alone, will triple from \$79.1 million in 1972 to \$217 million in 1981 (E885). Observing that "the real strength" of its research and engineering division "rests in the technical capability of our people" and that Xerox's professional staff represents 95% of the world's personnel skilled in the relevant technology (E893), the Plan states that Xerox's "manpower and facilities growth for the 1972-1981 period is planned at almost three times the current staff" (E885).

The Plan also contains Xerox's assessment of the relative weakness of competitive technology in the forthcoming decade (E907):

> "No major new competitive technology or product surprises during 1972-1981 are anticipated. New Products to be marketed will be those already known or expected to be developed in the forecast period."

As to Xerox's allegedly illegal worldwide control of plain paper office copying in conjunction with its now-subsidiary Rank-Xerox (over whom Xerox obtained voting and managerial control in 1969 by a stock purchase) and in conjunction with Fuji-Xerox (50% of whose stock is owned by Rank-Xerox), the 1972 Long Range Plan poses two "strategic issues" facing Xerox's management. The first

was to find "the best way to establish and effectively coordinate worldwide R&E [research and engineering] efforts"; and the second was to determine on a worldwide basis the "optimum manufacturing (sourcing) strategy for the broad array of products represented by the Plan" (E866).

Xerox's manufacture and marketing of this unmatched "broad array" of products which, at the commencement of the action, consisted of 12 different models of plain paper office copiers (A37-38) (since added to by one copier), should be compared to the products of its competitors—none of whom offer more than one model, except IBM offering two. Xerox's lead in this regard is the unlawful effect of its illegal acts and practices, and constitutes an unlawfully erected high barrier to effective competition by others. If those allegations are true or likely true, then Xerox's planned introduction between now and 1977 of yet a further host of new products in the plain paper office copying field (E887), will only serve unlawfully to raise the barriers to competition and further entrench Xerox's already existing power.

Moreover, Xerox's 1972 Long Range Plan evidences other aspects of its continuing violation of the antitrust laws, and therefore the irreparable injurious effects on the public and on its actual and potential competitors including SCM. For example, Xerox's 1972 Plan testifies to Xerox's monopoly power to fix prices in the plain paper office copying field unaffected by the efforts of anyone else, when it asserts that:

> "No price action is recommended until 1976 . . . . We are forecasting a general ability to maintain 1972 price levels throughout the decade." (E903-04)

Xerox, in responding to SCM's motion for a severance and prompt trial of the liability issues, did not offer any evidence in rebuttal. It did not respond to SCM's substantive arguments concerning the need for a prompt determination of its equitable claims. Xerox opposed a

separate trial, contending that it would be inefficient and would impair its claimed right of jury trial (E235-38). With respect to the alternative request for a preliminary injunction, Xerox sought yet another round of briefing on its contention that the preliminary injunction motion should be denied as a matter of law without holding the requested evidentiary hearing (E243-44, 339). SCM opposed Xerox's request on the grounds that there had been sufficient briefing and that evidence had been submitted supporting the claimed irreparable injury (E313).

4. The Ruling of January 3, 1974

The court below first denied SCM's motion for severance and prompt jury trial of the antitrust liability issues and for stay of proceedings with respect to damage and patent issues (A129).

The court then went on to note that a preliminary injunction is normally entitled to "expedited consideration" even in a complex antitrust action (A130). It set May 1, 1974 as the tentative target date to begin the evidentiary hearing on SCM's preliminary injunction motion, but it directed an additional round of briefing on Xerox's legal defenses, and stated that such a hearing would be held only if SCM were able to survive the two legal defenses asserted by Xerox (A131).

In both its January 3 order and its April 19 Pre-Trial Ruling No. 6 (A130, 133) the court framed the issue for briefing and decision as a motion or "demurrer" by Xerox to dismiss SCM's preliminary injunction motion for failure to state a claim upon which preliminary injunctive relief may be granted, arising under the principles applicable to a Rule 12(b)(6) motion to dismiss a complaint for failure to state a claim on which relief may be granted.

Specifically, the two matters to be briefed and decided were whether, as Xerox contended, the relief requested could not be granted as a matter of law because such relief would alter the *status quo* beyond the function of a preliminary injunction; and whether, as Xerox also contended,

SCM could not, as a matter of law, show any threatened immediate irreparable injury (A130).

Since the court framed the issue as one of legal sufficiency, SCM, Xerox and the court all agreed that Xerox's legal contentions necessarily had to proceed on the assumption that SCM would be able to demonstrate at any evidentiary hearing the truth or likely truth of its allegations (E587-91, 424-25). Xerox expressed that assumption as follows: "it is Xerox's position that, even if it be assumed *arguendo* that SCM will establish, at a preliminary hearing, a substantial likelihood that it will ultimately prove at trial its antitrust charges, there is no point in holding such a hearing because SCM would still not be entitled to the requested relief *pendente lite.*" (E496)

5. SCM's Specification of Other or Alternative Forms of Relief

In an effort to avoid any possible misunderstanding concerning the preliminary injunctive relief sought by SCM, SCM's counsel advised counsel for Xerox and the court by letter of January 18, 1974 (E753), that in the briefing to be submitted, SCM intended to show the legal sufficiency of not only the specific forms of preliminary injunctive relief described in paragraphs 49 to 53 of the amended complaint, but also of lesser-included and further or alternative types of relief, which the letter also briefly summarized.

SCM urged that the court's power to grant appropriate forms of preliminary relief after a sufficient evidentiary showing is not circumscribed by the particular forms of relief requested in the original moving papers (E424-27).[1] In its briefs, SCM requested a number of forms of preliminary injunctive relief beyond those particular forms described in the amended complaint—what Xerox's counsel

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[1] At one point in its decision, the court agreed with that contention by SCM, but it went on to reach a different result. See page 22 below.

later mocked as SCM's growing "laundry list" of requested relief (E621, 495).

The particular forms of relief requested in the amended complaint are described at pages 8-9 above. The other or alternative specific forms of relief requested in the briefs included prohibitory injunctions against new violations by Xerox during the pendency of the action by restraining it:

(a) from making any further acquisitions of relevant patented or unpatented technology from Battelle (E563) (a third party from whom Xerox had purchased massive amounts of relevant patented and unpatented technology, including the fundmental technology of xerography, and with whom Xerox admittedly has an exclusive agreement to acquire ownership of all relevant technology which Battelle develops in the future) (A76-77, 101);

(b) from making any new acquisitions of relevant patented and unpatented technology developed by others (including Rank-Xerox) (E563);

(c) from entering into new cross-licensing agreements under which Xerox obtains exclusive use of relevant technology developed by others (E563);

(d) from making any new acquisitions of the stock or assets of any other companies engaged in the relevant fields of endeavor (E491); and

(e) from enlarging its professional and technical staff in the relevant technology (E534).

In its briefing, SCM requested other forms of prohibitory restraints to help anesthetize or sterilize the continuing unlawful effects during the pendency of the action of existing or prior violations by Xerox. Thus, for example, as to Rank-Xerox matters, SCM contended the court possessed power to anesthetize the effects of Xerox's alleged illegal 1969 stock purchase of control of Rank-Xerox:

(a) by restraining Xerox from further intermingling its technology, assets and other activities with those of Rank-Xerox (E472);

(b) by restraining Xerox from obtaining the exclusive benefits of any technological or product developments made by Rank-Xerox (E491) (including, as is shown by Xerox's 1972 Long Range Plan, Xerox's plan to obtain exclusive rights in the United States to two new plain paper office copying products presently being developed in the laboratories of Rank-Xerox and its affiliate Fuji-Xerox) (E867, 873, 881, 887, 891);

(c) by restraining Xerox from implementing any of its policies in or outside of the United States through the exercise of its acquired control of Rank-Xerox (E491); and

(d) by restraining Xerox from obtaining any further benefits from, or from exercising any further control over Rank-Xerox (E490-91).

SCM also contended that, depending upon the evidentiary showing, the court might grant more particularized alternative relief than that sought in the amended complaint. Thus as SCM asserted, if it were sufficiently demonstrated that Xerox's introduction of unique new products, using newly developed technology, was the illegal effect of its long stranglehold over the relevant technology, and that Xerox's exclusive marketing of such unique new products will increase the barriers to competition and lengthen Xerox's technological and marketing leads over competitors, various kinds of preliminary relief might be granted. For example, access to the technology involved, or sale of a reasonable number of those unique machines to competitors, might be directed to restrain the illegal effects that would otherwise occur during the pendency of the action (E482-85).

At bottom, SCM contended in its letter of January 18, 1974, in its briefing and at oral argument, that if it made an evidentiary demonstration of the likely truth of the illegality of Xerox's acts and practices, there exists an extremely broad range of preliminary injunctive relief which the court may creatively fashion and grant so that

during the years ahead in which the action is pending, the violations and their effects do not become more aggravated and prolonged. In this regard, SCM also relied on a similar presentation which was prepared by Control Data Corporation and three other major computer manufacturers, concerning interim remedies which should be imposed against IBM in the computer field to avoid those untoward effects before the granting there of final permanent injunctive remedies (E754, 423, 486-87, 777-88).

6. Xerox's Attempts to Moot the Issues by Counsel's Representations and Offers of Compromise

With respect to the preliminary injunctive relief sought by SCM in paragraph 52 of its amended complaint restraining Xerox from attempting to enforce its restrictive employment agreements, Xerox never contended that the court lacked power to grant such relief on a sufficient evidentiary showing. Rather, Xerox asked the court to dispose of that request for relief summarily on Xerox's unilateral representation that the matters involved were "moot" (E371, 514, 714).

In response, SCM handed up two forms of Xerox employment agreements, each containing different post-employment restrictive clauses, which Xerox in its October 15, 1973 interrogatory answer had stated were then currently in effect (E757, 771; see also E67-68, 654-58). Subsequent to the oral argument, Xerox submitted, by letter of March 8, 1974, a so-called "Memorandum of Facts" and several other documents relating to this subject (E759). One such document was a thoroughly ambiguous undated memorandum by its chief executive officer on which Xerox based its contention that one (but not both) of those forms of employment agreements had been abandoned (E761-62). In this post-argument letter and memorandum, Xerox made no contentions and submitted no documents in an attempt to explain the apparent inconsistency between its claim of mootness and its interrogatory response indicating the matter is very much alive. Nor did Xerox attempt to

rebut SCM's allegations (E654-59) that such agreements have anti-competitive effects.

In addition to these and other factual matters raised during and after the briefing and oral argument on its demurrer, Xerox made certain representations concerning the extent to which it would attempt to enforce its patents against SCM. These representations were ultimately embodied in Xerox's March 8 post-argument letter to the court below (E600-01, 624-25, 647-48, 759-60).

Xerox unilaterally represented that it would give SCM 90 days notice before bringing an infringement suit against SCM or any of its suppliers. Xerox added the meaningless gesture that in any such suit it would not seek any preliminary injunctive relief.[1] As to territories outside of the Western Hemisphere (including the European territory of Rank-Xerox, its now subsidiary), Xerox ambiguously asserted that the representations made by it to SCM in this action would be effective only if and to the extent Xerox possessed the legal power to make them effective (E760).

Finally, in its post-argument letter of March 8 Xerox made an offer, requiring an acceptance by SCM, of a 4% royalty patent license agreement during the pendency of the action. Any royalties paid would be "non-refundable" (E760). During the oral argument, when this general subject was being discussed without all of the specifics of Xerox's offer, SCM's counsel protested against any attempt by Xerox in the presence of the court to negotiate Xerox's proposed compromise of SCM's preliminary injunction motion. Instead, SCM contended that the court should determine the kind, scope and extent of preliminary relief, if any, to which SCM was entitled, and then only after an evidentiary hearing and after the rendition by the court of findings of fact and conclusions of law, as required by Rule 52(a) (E651-52; 540-42).

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[1] Since none of Xerox's patents have been adjudged valid, preliminary relief likely would not in any event be available to it. See *Carter-Wallace, Inc.* v. *Davis-Edwards Pharmacal Corp.*, 443 F.2d 867, 871-72 (2d Cir. 1971).

The Court's View of the Burdens of This Litigation

One of the matters of important concern to the court during oral argument of Xerox's demurrer was the burden which would be placed on the court by reason of a possibly protracted evidentiary hearing on the preliminary injunction motion. In response to the court's question, SCM's counsel asserted his belief that SCM's proof would take about two weeks, or ten trial days; and he made the further undertaking that in no event would it exceed three weeks (E667-68).[1] Repeatedly since the outset of the action, SCM had advised the court that after limited discovery, proof of SCM's allegations would not require many thousands of exhibits and scores of witnesses; and that SCM was going to heed Judge Wyzanski's admonitions in the *United Shoe* and *Grinnell*[2] cases to limit drastically the amount of evidence submitted (E120, 266, 691).

The court below did not make any similar inquiry of Xerox's counsel. Perhaps it did not do so because Xerox had argued that the issues and evidence involved were so complex and "gargantuan," it was inconceivable that the court could make an "informed determination" on the issues at a preliminary injunction hearing, and that such an informed determination could only be made on plenary trial (E372). It is surprising that in its Pre-Trial Ruling No. 6 of April 19 which followed, the court did not unequivocally reject this extraordinary argument by Xerox that the very magnitude of its alleged antitrust violations

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[1] Many long preliminary injunction hearings have occurred. See also, *e.g., United States* v. *Northwest Industries, Inc.*, 301 F. Supp. 1066 (N.D. Ill. 1969), where the preliminary injunction hearing lasted eighteen trial days; and *Harlem River Consumers Co-operative, Inc.* v. *Associated Grocers of Harlem, Inc.*, 74 Trade Cas. ¶ 74,922 (S.D.N.Y. 1974) where the hearing lasted seventeen trial days. The recent *S.E.C.* v. *Vesco* preliminary injunction hearing before Judge Stewart in the Southern District of New York lasted for months.

[2] *United States* v. *United Shoe Machinery Corp.*, 110 F.Supp. 295, 299 (D. Mass. 1953), *aff'd*, 347 U.S. 521 (1954); *United States* v. *Grinnell Corporation*, 236 F.Supp. 244, 247 (D. R.I. 1964), *aff'd*, 384 U.S. 563 (1966).

places it beyond the pale of effective judicial remedies during the pendency of the action. Instead, in its Pre-Trial Ruling No. 6, the court only referred (and then three times) to the burden placed on it by a possibly protracted evidentiary hearing on the preliminary injunction motion (A133, 134, 139). The court made no reference to the possibility of accelerating the plenary trial on the merits.

The court earlier, in its Pre-Trial Ruling No. 5 of February 22, 1973, had emphatically expressed its concern with the burdens on it generated by this litigation when it referred to the "continuing flood of motions that threatens to drown this litigation" (E575) and to district courts generally, which are "already overburdened with a constantly increasing caseload" (E578).[1]

SCM has sought unsuccessfully to reduce the burdens of this litigation and thereby to expedite judicial consideration and decision on the substantive antitrust liability issues. Xerox has consistently and successfully opposed all of SCM's efforts to make a "big" case smaller.

Pre-Trial Ruling No. 6 of April 19, 1974: The Order From Which This Appeal Is Taken

A. The court reached the following legal conclusions:

First, no evidentiary hearing on SCM's preliminary injunction motion is needed to explore the truth or likely truth of Xerox's alleged antitrust violations because the preliminary relief specifically described in the amended complaint, if granted, would alter the *status quo* in ways beyond the function of a preliminary injunction; and in any event, SCM (even though one of Xerox's acknowledged competitors) cannot as a matter of law show any irreparable injury for lack of such relief (A139).

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[1] In part because of this concern by the court, SCM on April 16, 1974 moved for the appointment of a Special Master to supervise discovery. The court denied this motion in its Pre-Trial Ruling No. 8 of June 12, 1974 (E773). In this instance, the court did not consider the burdens to be imposed on it in resolving discovery disputes to be so onerous as warranting the appointment of such a Special Master.

Second, because of the legal insufficiency of those particular forms of relief specifically described in SCM's amended complaint, in deciding whether SCM should be accorded the right to be heard at an evidentiary hearing, no consideration would be given (A134):

(a) to SCM's prayers in its motion and in the amended complaint for the granting of other or further or alternative injunctive relief;

(b) to the legal sufficiency of the other kinds of preliminary relief which SCM specifically requested in its briefs; and

(c) to any other forms of preliminary relief which the court independently might properly fashion after a sufficient evidentiary showing, to curb any irreparable injurious effects during the pendency of the action flowing from Xerox's antitrust violations.

Thus the court did not decide the issue of the legal sufficiency of SCM's motion, the very demurrer issue which it had framed, *i.e.,* whether there are any conceivable remedies for the alleged wrongs during the pendency of the action. Despite its announced agreement in principle with SCM's well-founded contention that the court's power to grant appropriate forms of preliminary relief after a sufficient evidentiary showing was not circumscribed by the particular forms of relief described in the amended complaint (A134), in fact the court severely circumscribed its consideration in that very manner. Even as to the items of relief the court did consider, as we show in the Argument below, it erred.

B. At later points in this brief we will discuss several of the factual determinations made summarily by the court in reaching its conclusions. However, it should be observed at this juncture that despite the court's express recognition of the emphatic existence of disputed facts (A133),[1] it nevertheless gave conclusive effect to virtually every

[1] As Xerox put it, "there are a multiplicity of hotly contested key issues of fact in this case. . . ." (E516).

factual argument and representation made by Xerox during and after the briefing and argument of its demurrer. At the same time, and apart from the assumed truth or likely truth of SCM's allegations, the court did not discuss, entirely disregarded and gave no *prima facie* or other weight to the documentary evidence submitted by SCM, and which SCM contended showed irreparable injurious effects of Xerox's violations on SCM, other competitors and the public.

C. At the outset of its ruling, the court expressly disregarded SCM's claims that many of Xerox's acts and practices violate Section 1 of the Sherman Act and Section 7 of the Clayton Act. Instead, it focused only on SCM's claims that Xerox was acting in violation of Section 2 of the Sherman Act (A132). Thus, the court was able to disregard the body of law in this Circuit and elsewhere, that preliminary injunctions under Section 7 of the Clayton Act should be used to restrain even the incipient anti-competitive effects on acknowledged competitors of acquisitions which are likely violations of that statute. Instead, the court gave emphasis to the unusual, but not unprecedented, character of a preliminary injunction motion in an anti-monopoly case.

D. The court concluded that dismantling a monopoly and undoing its effects are appropriate remedies only after SCM establishes its monopolization case on plenary trial (A136). It thus rejected SCM's argument that upon an evidentiary showing of strong likelihood of ultimate success, and especially in view of the gravity of the charges and their widespread public and private effects, preliminary injunctive relief properly may curb some of the presently perceived unlawful anti-competitive or monopolistic effects during the pendency of the action; that it may properly be used to enhance opportunities to compete during the pendency of the action; and that it may properly be used to enhance the effectiveness of likely ultimate judicial remedies (E754, 473).

ARGUMENT

POINT I

The court erred in refusing to consider other forms of preliminary relief and in disregarding the public interest.

A. The court erred in failing to follow Rule 12(b)(6) standards under which dismissal cannot be granted if some form of relief is possible.

In its Pre-Trial Rulings No. 5 and No. 6, the court below framed the issue as one arising under the principles involved in considering a Rule 12(b)(6) motion. In Pre-Trial Ruling No. 6 the court stated:

> "In effect, defendant is demurring to plaintiff's motion, or, in the language of Fed. R. Civ. P. 12(b), raising the defense that plaintiff, in seeking a preliminary injunction, has failed to state a claim upon which relief can be granted." (A133)

The issue on a Rule 12(b)(6) motion is whether the pleading sufficiently alleges a wrong on which *any* relief may be granted. If the pleading describes a remedy which cannot be granted, the motion to dismiss should be denied if there is any other remedy which can properly be granted. As Professor Wright has summarized numerous decisions, a Rule 12(b) motion to dismiss will be denied even if it does "not appear that the plaintiff can obtain the particular relief prayed for, as long as the court can ascertain that some relief may be granted."[1]

This Court follows those uniformly applied principles and has held that a pleading "should not be dismissed for

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[1] 5 Wright & Miller, Federal Practice and Procedure: Civil § 1357 (1969). See also *Conley* v. *Gibson,* 355 U.S. 41, 45-46 (1957); *Haines* v. *Kerner,* 404 U.S. 519, 520-21 (1972); *Fanchon & Marco, Inc.* v. *Paramount Pictures,* 202 F.2d 731 (2d Cir. 1953); *Kahan* v. *Rosenstiel,* 424 F.2d 161 (3d Cir. 1970) *cert. denied,* 398 U.S. 950 (1970); 6 Moore, Federal Practice ¶ 54.60.

legal insufficiency except where there is a failure to state a claim on which *some* relief, not limited by the request in the complaint, can be granted." *Norwalk CORE* v. *Norwalk Redevelopment Agency*, 395 F.2d 920, 925-926 (2nd Cir. 1968) (the Court's emphasis).[1]

Xerox did not contend, and the court below did not render any decision, that SCM failed to give adequate notice of its claims for preliminary injunctive relief. Before the briefing directed by the court, SCM informed both Xerox and the court by letter that it intended to rebut Xerox's legal arguments not merely with reference to the relief specified in the amended complaint, but also with reference to lesser-included, other or further relief, pursuant to SCM's prayer for such relief. (Letter of January 18, 1974 discussed at page 15 above.) Not to consider

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[1] Where relief was requested by the moving party in general terms, courts have gone on to grant particular kinds of preliminary injunctive relief which had not been specifically requested. For example, in *Eastman Kodak Co.* v. *Fotomat Corp.*, 317 F.Supp. 304, 307 (N.D. Ga., 1970), *appeal dismissed*, 441 F.2d 1079 (5th Cir. 1971), the court fashioned and granted preliminary injunctive relief although plaintiff did not specify the precise steps to be required of defendant until the hearing was practically ended. See also the motion papers filed in the district court in *Glen-Arden Commodities, Inc.* v. *Costantino*, 493 F.2d 1027 (2d Cir. 1974) (preliminary injunction requested in general terms against further violations of a particular statute. Defendant was enjoined against specific acts).

In other cases, courts have refused to grant the preliminary relief requested by the moving party but have gone on to fashion and grant other or alternative kinds of preliminary injunctive relief. See *e.g., Columbia Broad. Sys., Inc.* v. *American Soc. of Comp. A & P*, 320 F.Supp. 389, 393 (S.D.N.Y. 1970).

In *Interphoto Corporation* v. *Minolta Corporation* (S.D.N.Y. 1969, unreported, see E566), Judge Herlands entertained and granted plaintiff's supplementary request (after hearing and entry of its prior order regarding preliminary relief) for additional preliminary injunctive relief. Although plaintiff's motion for a preliminary injunction had not contained a request for other or alternative relief, Judge Herlands decided that the presence of such a request in the affidavit of plaintiff's counsel provided a sufficient foundation to entertain the supplementary request (E570-72). This Court affirmed the supplementary order, 417 F.2d 621, 622 (2d Cir. 1969).

such items of relief merely because they were not incorporated in the amended complaint or the motion itself (or any further amended complaint or amended notice of motion) but rather in briefs, is plainly an improper exaltation of form over substance. (See the cases cited at fn. p. 25; see also *DeLorenzo* v. *Federal Deposit Insurance Corp.*, 268 F. Supp. 378, 381 (S.D.N.Y. 1967).)

Further, the court below expressly recognized that its power to grant preliminary relief was not circumscribed by the specifics of SCM's amended complaint (A134), and thus it should have gone on, under the Rule 12(b)(6) procedure it adopted, to determine whether there was any conceivable interim remedy to which SCM might be entitled. It therefore should have considered the other or alternative forms of relief requested by SCM during the briefing and argument, and any other forms of relief which the court below itself might properly fashion and grant.[1]

By not doing so, the court failed to follow the basic principles involved in a Rule 12(b)(6) motion, and thus committed error.

B. The court below compounded its error by disregarding the public interest and unduly limiting SCM's role as a private attorney general.

In concluding its Ruling, the court held that the possible irreparable injury during the pendency of the action to the public and to prospective competitors like SCM, resulting from Xerox's alleged violations, were not additional factors which would "justify further consideration of the specific forms of relief sought by SCM in its amended complaint." It went on to hold that because of the legal insufficiency of the particular forms of relief sought by SCM in its amended complaint, SCM would not be accorded the role of a private attorney general "to seek [other or alternative] preliminary relief that will arguably serve the public interest. . . ." (A138).

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[1] See generally the discussion by Judge Friendly concerning the role to be played by "resourceful" district judges in fashioning preliminary injunctive relief. *Electronic Speciality Co.* v. *International Controls Corp.*, 409 F.2d 937, 947 (2d Cir. 1969).

In private antitrust and other actions involving important public policy[1] once the private plaintiff has shown the possibility of some irreparable injury to itself,[2] the "paramount factor" to be considered in determining a preliminary injunction motion is the public interest. *Gulf & Western Indus., Inc.* v. *Great A. & P. Tea Co., Inc.*, 476 F. 2d 687, 698-699 (2d Cir. 1973). In that case, this Court determined that because of the magnitude and far-reaching consequences of the alleged violations of the federal securities laws, and Section 7 of the Clayton Act, the public interest required the application of like standards in determining a private party's motion for a preliminary injunction as are applied in determining such a motion by the government. This Court was thus applying well-established doctrine that "the standards of the public interest, not the requirements of private litigation, measure the propriety and need for injunctive relief,"[3] that any doubts whether the injunction sought is necessary to safeguard the public interest "should be resolved in favor of granting the injunction."[4] and that "courts of equity may and frequently do, go much farther both to give and withhold relief in furtherance of the public interest than they are accustomed to go when only private interests are involved."[5]

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[1] "The purpose of giving private parties treble-damage and injunctive remedies was not merely to provide private relief, but was to serve as well the high purpose of enforcing the antitrust laws." *Zenith Corp.* v. *Hazeltine*, 395 U.S. 100, 130 (1969). "The purposes of the antitrust laws are best served by insuring that the private action will be an ever-present threat to deter anyone contemplating business behavior in violation of the antitrust laws." *Perma-Life Mufflers* v. *Int'l Parts Corp.*, 392 U.S. 134, 139 (1968).

[2] SCM never argued, and does not argue, that its role as a private attorney general excuses it from the requirement of showing some possible private injury. See *Mo. Portland Cement Company* v. *Cargill Incorporated*, 2d Cir. Slip Op. Nos. 1090 and 1091, at pp. 4075-76 (June 10, 1974).

[3] *Hecht* v. *Bowles*, 321 U.S. 321, 331 (1944).

[4] *Gulf & Western*, 476 F.2d at 699, citing *United States* v. *First National City Bank*, 379 U.S. 378, 383 (1965); *Mitchell* v. *Pidcock*, 299 F.2d 281, 287 (5th Cir. 1962).

[5] *Virginian Ry. Co.* v. *Federation*, 300 U.S. 515, 552 (1937).

It is evident that all of those considerations apply with great force here where, in considering Xerox's demurrer, the truth or likely truth of the allegations of Xerox's wide-ranging violations of Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act, and their wide-spread pernicious effects, must be assumed. Contrary to the court's holdings, the public interest considerations do provide further support for the legal sufficiency of both the particular forms of relief requested by SCM in its amended complaint and the other forms of relief requested by SCM during the briefing below.

POINT II

The district court has the power to grant the relief requested by SCM because of Xerox's alleged violations and their immediate effects during the pendency of the action including the irreparable injury to SCM, one of Xerox's acknowledged competitors.

A. The context in which questions concerning appropriate relief must be decided in advance of the evidentiary hearing.

Under the Rule 12(b)(6) procedure adopted by the court below and by both parties in their briefing, the issues presented at this juncture in advance of an evidentiary hearing must be decided on the assumption that SCM can establish the allegations of fact and violations of law alleged in the amended complaint and the other factual claims advanced on the documentary evidence which SCM submitted (see pages 11-13 above).

In this section we will outline that factual context. Although the matters are to an extent admitted by Xerox,[1]

[1] For example, in its answer Xerox admits (A101) the allegations of ¶ 20 of SCM's complaint that "Since 1956 Battelle has engaged and continues to engage in xerographic research and development activities exclusively for Xerox." As to other admissions by Xerox in its answer, see A98-104.

(footnote continued on following page)

they are also to an extent denied. Nevertheless, under indisputable Rule 12(b)(6) principles that plaintiff's allegations will be assumed to be true and will be considered in the light most favorable to it, they will be set forth here as though they are all established.

The fundamental technology of xerography was not developed by Xerox, but was acquired by Xerox from third parties. Xerography owes its origin to basic inventions by Chester Carlson, embodied in four patents issued between 1940 and 1944, which were the subject of contracts between Carlson and Battelle Development Corp. Between 1944 and 1956, further extensive xerographic research was conducted by Battelle, which resulted in the issuance and generation of many additional patents and patent applications. In 1956, Xerox purchased exclusive ownership of the basic Carlson patents and all of the patented and unpatented skill and technology in the field of xerography which Battelle had developed by that time. During the 18 years since that time, Battelle has continued to conduct extensive xerographic research for Xerox exclusively. Xerox has acquired exclusive ownership of all patents and all unpatented technology developed by Battelle since 1956, and Xerox has the perpetual right under the 1956 contract to acquire all such future technology developed by Battelle (A25-26, 76-77).

During the 1950's and 1960's, Xerox continued to acquire patents and other technology in the field of xerography developed by others through a variety of devices: outright purchases; agreements under which others engaged in research for Xerox's exclusive benefit; cross-license arrangements; and grantbacks (A26-28, 42-43, 77-78, 80).

(footnote continued from preceding page)

Below, Xerox itself submitted an article (albeit for another point), which described Xerox as the "kingpin of the industry", whose "dominance of the market [was] originally based on a strong patent position" which has been "supplemented by a powerful marketing and service organization. . . . " The article also described SCM "as in the field, too, and trying to grow" and that it and a few others are preparing "to do battle for the copier dollar" (E518-19).

For example, in using its patents to enlarge its rights, Xerox has entered into licenses of its patents for other fields of activity that do not permit the licensees to use the patents in connection with plain paper office copying, but that contain unrestricted grantback rights to Xerox with respect to any xerographic patents developed by the licensees (A27, 77-78). The companies from whom Xerox has thus added to its fund of technology include RCA, IBM, General Electric, Kalle, Azoplate, Keuffel & Esser, Horizons, Bell & Howell and Savin Business Machines (A27).

Thus, Xerox, through a series of arrangements has created an enormous funnel by which the results of a great mass of research and development activities conducted by a great number of others all flow to Xerox. As the direct result of this funnel, a great "patent thicket" was erected and enlarged, and further enlarged by Xerox's subsequent internal research and development. Xerox today owns over 1600 unexpired patents in the field of xerogrophy (many of which it does not use, and which stand as "blocking" patents); and since the early 1960's has maintained exclusive control over the patented and unpatented skill and technology of xerography. Xerox licensed its patents only upon express agreement that the licensee may not use the patent in plain paper office copying (A80-81).

Thus, it became impossible to avoid Xerox's "patent thicket" and manufacture or market a plain paper office copier without violating Xerox's claimed patent rights (A24, 81-82). For example, IBM's entry into plain paper office copying in 1970 was met the same day with an action by Xerox alleging IBM infringed 22 Xerox patents (later reduced to 11); and alleging that IBM appropriated secret unpatented technology which Xerox had previously conveyed to IBM under licenses prohibiting the use of that technology for plain paper office copying (A44). Although SCM hopes to complete successful development of its own copier and market it by 1975 (E282), it intends to prove that it made 27 prior unsuccessful attempts to develop commercially feasible technology for plain paper office copying, many of which foundered on Xerox's "patent thicket"

(E638, 666). SCM's frequent requests since 1963 for a license in plain paper office copying were refused by Xerox.[1]

The success of Xerox's anti-competitive activities is attested to by the weakness—indeed the entire absence—of competition. For ten years, beginning in 1960 when Xerox introduced its first plain paper office copier, Xerox had no competition whatsoever in the United States respecting the manufacture or the marketing of plain paper office copiers (A84). As a result of Xerox's stranglehold over the relevant technology since 1960, and its stranglehold over 95% of the world's personnel skilled in xerography by means of restrictive employment agreements and other devices (E893, 766, 771), Xerox alone has maintained control over the pace and direction of scientific effort in the field to its advantage, and to the detriment of other competitors and ultimately the public (A84). Xerox could say with assurance in 1972 that "No major new competitive technology or product surprises during 1972-81 are anticipated" (E907).

Free from any plain paper office copier competition, Xerox's revenues rose from under $4 million in 1960 to about $1.3 billion in 1970. Its annual profits grew from $1 million in 1960 to $400 million in 1970 (A24).

In 1970, IBM introduced a plain paper office copier. Xerox's chief executive officer said in 1972 that IBM's competitive impact had been "very very small." In 1973, three years after IBM's entry, he stated that competitive impact continued to be "minimal" (A24). Further, with the beginnings of competition, since 1970 Xerox's profits have continued to soar, reaching about $550 million in 1972 (A24). Xerox's market share in the United States today, following the entry of IBM and a small handful of others, is in excess of 95% (A75).

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[1] From 1960 to 1970 Xerox refused all requests from every source for a plain paper office copier license (A82, E789, 791, 793, 795). Since 1970 it has offered licenses as to a few patents embodying old technology, and such offers have been illusory because uneconomic and unreasonable (A82).

The means by which Xerox has accumulated patents and unpatented technology—and thereby its control over the manufacture and marketing of plain paper office copiers—violate Section 7 of the Clayton Act as well as Sections 1 and 2 of the Sherman Act.[1]

The power to fix prices or the power to exclude competition are hallmarks of monopoly power. *United States* v. *Grinnell Corp.*, 384 U.S. 563, 571 (1966); *American Tobacco* v. *United States*, 328 U.S. 781, 789 (1946). Xerox's power to fix prices is attested to by its own asserted ability to maintain prices, as referred to at page 13 above. Xerox's power to exclude competitors is attested to by its own assertions that its patents give it exclusive control over the manufacture of plain paper office copiers and that it is thereby impossible for anyone else to manufacture such copiers without infringing Xerox's patents (A24, 81-82).

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[1] A patent has been held to be an "asset" whose acquisition is governed by Section 7 of the Clayton Act. See e.g., *United States* v. *Lever Brothers Company*, 216 F.Supp. 887, 889 (S.D.N.Y. 1963). See also cases cited in A.B.A., Antitrust Developments 1968-1971 at p. 52 (1972).

The patent grantback and other agreements used by Xerox violate Section 1 of the Sherman Act because of their unreasonable impact on competition. See, e.g., *United States* v. *National Lead Co.*, 63 F. Supp. 513, 532 (S.D.N.Y. 1945), *aff'd*, 332 U.S. 319 (1947), where a cross-licensing agreement was held to violate Section 1 in part because of the situation—remarkably like that here—that it created: "The newcomer is confronted by a veritable jungle of patent claims through which only the very powerful and stouthearted would venture. . . ."

See also *United States* v. *General Electric Co.* (*Carboloy*), 80 F.Supp. 989 (S.D.N.Y. 1948), condemning per se the use of basic patents to compel the transfer of future patents; *United States* v. *General Electric Co.* (*Incandescent lamps*), 82 F.Supp. 753, 816 (D.N.J. 1949) where General Electric's "aggregation of patents into its control permitted General Electric to monopolize patents and by so doing it violated § 2 of the Sherman Antitrust Act"; *Lynch* v. *Magnavox Co.*, 94 F.2d 883 (9th Cir. 1938), striking down a cross-licensing agreement.

See also the pertinent discussion by Justice Douglas in *Transparent-Wrap Machine Corp.* v. *Stokes & Smith Co.*, 329 U.S. 637, 646-47 (1947) and compare with the allegations leading up to and including ¶ 25 of the amended complaint (A74-79).

Xerox's further recognition that it possessed that power, and its deliberate use of that power to exclude, for example, both SCM and IBM as competitors is also attested to by internal Xerox documents submitted to the court below as evidence (E789, 791, 793).

If the court below finds that plain paper office copying is a relevant "line" or "part of commerce," and that Xerox is a monopolist with its more than 95% share, it would follow as a matter of law that all of Xerox's exclusive agreements and others of its restrictive practices are illegal *per se*. See Handler, 25 Years of Anti-trust at pp. 55-56, 276, 365-66, 368, 693 (1973).

Xerox has also violated Sections 1 and 2 of the Sherman Act and Section 7 of the Clayton Act in connection with the worldwide cartel it erected with Rank-Xerox and others. In 1956, Xerox and The Rank Organisation Limited, a United Kingdom corporation, organized Rank-Xerox in the United Kingdom, as to which Xerox did not possess voting control until 1969 (A50-51).

In 1960, Rank-Xerox, together with Fuji Photo Film Co., organized Fuji-Xerox, a Japanese organization (A51), in which Xerox has never possessed a direct stock interest, since that has been held only by Rank-Xerox and Fuji Photo Film. Xerox, Rank-Xerox and Fuji-Xerox have all since 1962 manufactured and marketed plain paper office copiers, but only in those territories of the world assigned to them under agreements among them (A51). Those three companies have divided the world among themselves and trade territories back and forth among themselves as though they were so many poker chips[1] (A51-52). Further, in their research efforts, rather than compete they coordinate. They mutually supplement and add to each other's competitive strength in their respective territories by the interchange of technology, as well as by the coordination of their manufacturing and marketing activities. (See pp. 12-13 above; E881, 891).

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[1] Agreements among potential competitors not to compete, and to limit themselves to their respective territories, are *per se* violations of Section 1. See *Timken Roller Bearing Co.* v. *United States,* 341 U.S. 593 (1951).

Thus the Xerox 1972 Long Range Plan, as already noted, phrased as two of the "strategic issues" facing Xerox's management the questions of "what is the best way to establish and effectively coordinate worldwide R & E efforts?" and, on a worldwide basis, ascertaining "the optimum manufacturing (sourcing) strategy for the broad array of products represented by the Plan" (E866).

In 1969, Xerox obtained, by stock purchase from the Rank Organisation, voting and managerial control of Rank-Xerox (A51). At minimum this acquisition plainly violates Section 7 of the Clayton Act.

To entrench its monopoly power, Xerox has engaged in and threatens to continue to engage in a number of other practices raising higher the barriers to entry and competition in plain paper office copying. For example, Xerox has threatened that anyone who might manufacture a plain paper office copier would be smothered in patent litigation, not as a lawful exercise of patent rights but instead as an element in Xerox's plan to maintain its monopolistic and anti-competitive position (A43, 82). The Supreme Court in *Blonder-Tongue* spoke to the anti-competitive effects on one unable or unwilling to defend onerous patent litigation. SCM has been a recipient of such threats (A41-43). Both Xerox and Rank-Xerox have kept these promises with suits against IBM, Litton and others who have marketed plain paper office copiers (A43).[1] The "Sword of Damocles" of such litigation hangs over SCM's head with respect to the copiers it is attempting to develop, the Van Dyk machines, and any others that SCM might attempt to develop or market.

Under *United States* v. *Aluminum Company of America*, 148 F.2d 416, 431 (2d Cir. 1945), there are other profound

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[1] These threats and the maintenance of these litigations are in themselves illegal. See *United States* v. *Otter Tail Power Co.*, 360 F.Supp. 451 (D. Minn. 1973), *aff'd*, 42 U.S.L.W. 3651 (U.S. Sup. Ct., 1974) (use of litigation to prevent potential competition from entering a market); *Kobe, Inc.* v. *Dempsey Pump Co.*, 198 F.2d 416 (10th Cir. 1952), *cert. denied*, 344 U.S. 837 (1952) (aggregation of patents and use of patent litigation).

violations by Xerox which Xerox has committed and threatens to continue. In that landmark case, Judge Learned Hand, for this Court, found that Alcoa was a monopolist and rejected the suggestion that Alcoa fell "within the exception established in favor of those who do not seek, but cannot avoid, the control of a market." The Court stated that once Alcoa had attained its monopoly position, it was "not inevitable" that Alcoa should always anticipate increases in demand and be prepared to supply them. "Nothing compelled it to keep doubling and redoubling its capacity before others entered the field." The Court went on to conclude: "We can think of no more effective exclusion than progressively to embrace each new opportunity as it opened, and to face every newcomer with new capacity already geared into a great organization, having the advantage of experience, trade connections and the elite of personnel" (148 F. 2d at 431).

Here, respecting research and development, Xerox's internal expenditure was $3 million in 1960, $53 million in 1966; and by 1972 $132 million (A33). By 1981 Xerox plans that its spending level for these activities will reach $217 million (E885).

Respecting its product line, Xerox has greatly expanded it to meet all variations of possible consumer demand. Xerox now markets a wide range of copiers from small tabletop copiers to large console copiers. It markets copiers with speeds ranging from 330 copies per hour to 7700 copies per hour, by far the fastest copiers available. It markets copiers with automatic sorters and automatic feeders; copiers that make copies in color; the only copiers that make copies on both sides of the copy paper automatically. In total, it now offers thirteen different models; no one of its competitors offers more than one, except IBM, with two (A37-39, 43, E483).

Respecting other areas, Xerox has continuously expanded its manufacturing, service and marketing facilities and its technical and other personnel in order consistently to anticipate and meet the increasing demand

for copiers (A36-41). It plans, as noted earlier (see pp. 12-13 above) an enormous further expansion of those activities, personnel and facilities during the coming years. Xerox has thereby become, as did Alcoa, a multi-billion dollar business organization with all the advantages of new manufacturing and marketing facilities, of highly developed customer connections and of skilled personnel (A85). Xerox's plans show its intention and capability of enlarging these unlawfully acquired advantages in the near future.

B. SCM is suffering irreparable injury as a result of Xerox's antitrust violations.

Any holding that SCM—an acknowledged competitor in the "target area" of Xerox's alleged violations—as a matter of law cannot be suffering irreparable injury during the pendency of the action, is inconceivable. The very recital of Xerox's violations and their effects is a recital of the irreparable injury to SCM and other competitors.

SCM suffers immediate irreparable injury at each level of its attempted competition with Xerox, as to technology, manufacturing and marketing. The erection, maintenance and further enlargement of barriers to entry and competition, and Xerox's further entrenchment of its existing power, necessarily injures SCM and all those attempting to overcome those barriers and attempting to compete against that power.

Regarding SCM's efforts to develop its own plain paper office copiers and its efforts on the marketing level to avoid dropping even further behind, it is harmed by its lack of access to Xerox's patented and unpatented technology; and by Xerox's growing technological lead, its increasing marketing strength and the further broadening of Xerox's product line using newly developed technology.

Thus, unless the court makes Xerox's existing and new patented and unpatented technology available to SCM during the pendency of the action, and unless the court grants all or some of the other kinds of preliminary relief requested in the amended complaint and briefing below, SCM's ability to conduct research and its consequent

ability to develop, manufacture and market plain paper office copiers will be restrained; and its ability to prevent at least a further broadening of the marketing gap between it and Xerox will be diminished, if not entirely destroyed.

Speaking as to one aspect of preliminary injunctive relief, Judge Frank said that such relief is a "policing" measure to at least keep the parties in the relative positions which existed at the commencement of the suit. *Hamilton Watch Co.* v. *Benrus Watch Co.*, 206 F.2d 738, 742 (2d Cir. 1953).

The irreparable injury suffered by SCM by reason of Xerox's unlawful refusal to grant a license is the lesson of *Zenith Corp.* v. *Hazeltine*, 395 U.S. 100, 120 (1969), where the Court discussed the disadvantages suffered by Zenith in attempting to operate in Canada without a license from the patent pool (the "CRPL"):

> "This deprivation in itself necessarily had an impact on Zenith *and constituted an injury to its business.* We find singularly unpersuasive the argument that Zenith was as well off without a license as with one. This is little more than an assertion that pool licenses, from which CRPL and its participants enjoyed substantial income, were without value. Without the license, doing business in Canada obviously involved weighty risks for Zenith itself, besides requiring it to convince the trade that it could legally and effectively do business without clearance from CRPL." (Emphasis supplied.)

SCM's lack of access to unpatented technology illegally aggregated and maintained by Xerox harms it as much as its lack of a patent license, for, as Xerox has said:

> "Xerographic machine systems are highly complex, interactive and precise and *require significant know-how to achieve high performance in an economical design.* As a result, the first efforts of the competition [except for IBM; see p. 30 above] have produced machines without impressive cost/performance characteristics. . . ." (E896, emphasis supplied.)

SCM at present has to conduct its efforts under more than one "Sword of Damocles". If it commits itself to the manufacture of a certain product, the product may be rendered obsolete by Xerox before SCM finishes tooling. If it brings its product to market, it may be burdened with the onerous expense of patent litigation brought by Xerox, involving that and the other anti-competitive effects noted by the Supreme Court.[1] SCM intends to prove at an evidentiary hearing that its presence in the copier business might not survive the pendency of this action without preliminary relief. Even if SCM can survive in that business, its growth would be so stunted, while Xerox's powers continue to grow undaunted and unchecked, that there is real doubt that SCM could be in a position to enjoy the benefits of final relief.

Necessarily, as Xerox expands and anticipates and satisfies the growing demands in plain paper office copying, the barriers to effective competition from others including SCM are maintained and enlarged, to their irreparable injury. That is the teaching of *Alcoa*.

SCM and other competitors in the United States market suffer irreparable injury from Xerox's strengthened position in the United States flowing from its alliances with Rank-Xerox and Fuji-Xerox. In addition, that worldwide cartel injures American manufacturers, including SCM, in their efforts to market copiers abroad. For many years SCM has marketed coated paper office copiers in Europe and elsewhere in the world. It hopes to be able to market its own American-made plain paper office copiers abroad through its existing international organization; and its contract with Van Dyk contemplates the possible export by SCM of American-made plain paper office copiers. But such export faces not only the great marketing strength of Rank-Xerox, but the possibility of an immediate patent infringement action of the sort Rank-Xerox

[1] *Blonder-Tongue* v. *University of Illinois Foundation*, 402 U.S. 313, 339-47 (1971).

has commenced against two of its fledgling competitors (E682; 540, 755).

To take only one further example, as Xerox continues to acquire ownership or the exclusive use of new technology developed by others (whether from Battelle, Rank-Xerox or others under existing agreements, or under new agreements), SCM and other competitors are foreclosed from attempting to compete for the acquisition of at least non-exclusive rights to use that new technology.

The ultimate point is that the court below's holding that SCM cannot as a matter of law show any irreparable injury is plainly wrong. Indeed, the opposite is true. SCM, as one of Xerox's competitors, is suffering massive irreparable injury, assuming the truth or likely truth of Xerox's alleged violations. That injury is immediate and wide-ranging[1]—it will be suffered week-by-week, month-by-month, and year-by-year during the pendency of this action until it is checked.

Moreover, the very granting of any preliminary relief, based on a finding of likely ultimate success by SCM, would have a salutary effect on SCM's willingness to attempt further penetration of the business as a competitor, and on the industry generally. Wholly apart from the benefits of the particular relief granted, the injunction would indicate that permanent relief creating an atmosphere in which competition is encouraged is likely to occur in the foreseeable future. Thus, potential competitors would be encouraged to make investments in this industry because

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[1] The court below mistakenly pointed to the very particularized irreparable injury flowing from a cut-off of supply to a distributor as exemplifying the kind of irreparable injury required to support a preliminary injunction (A136). Where, on a showing of likely violations on a broad front of activity, nothing in principle or any previous authority suggests that because the magnitude of the irreparable injury is ever greater, the court possesses lesser power during the pendency of the action to restrain the unlawful acts and their effects. To the contrary, there is even greater need for the court to use its powers to prevent that injury while the case pends.

the risks would appear reduced. SCM's ability to sustain losses and to commit capital would be enhanced, thus increasing its possibility of ultimately becoming an effective competitor.

Xerox itself conceded the basis for the conclusion that SCM must be suffering irreparable injury when it stated that if SCM ultimately prevails on the merits, it would be entitled to a permanent injunction and that Xerox's patents would be rendered unenforceable (E388). Unquestionably, whatever type of harm SCM would suffer after final judgment, is being suffered by SCM today and will be suffered by SCM throughout the pendency of the action in the absence of preliminary injunctive relief.

The degree of irreparable harm required. The precise extent of irreparable harm that must be proven in order to merit preliminary injunctive relief depends on the strength of the showing made on the merits at a hearing. In cases where the showing amounts only to the raising of serious questions going to the merits, a strong showing of injury is required; plaintiff in that instance must show that "the balance of hardship tips decidedly towards the plaintiff." *Hamilton Watch Co.* v. *Benrus Watch Co.*, 206 F. 2d 738, 740 (2d Cir. 1953). See also *Gulf & Western Indus., Inc.* v. *The Great A & P Tea Co., Inc.*, 476 F.2d 687, 692-93 (2d Cir. 1973) and authorities there cited. In this case, as we have shown, SCM can make such a strong demonstration of injury.

In any event, as the showing of likelihood of ultimate success on the merits grows stronger, a preliminary injunction may be granted on a lesser showing of irreparable injury. Where there is "reasonable certainty" that the moving party will succeed "possible irreparable injury" is sufficient. *Dino de Laurentiis Cinematografica S.p.A.* v. *D-150, Inc.*, 366 F.2d 373, 375 (2d Cir. 1966); *Sonesta International Hotels Corp.* v. *Wellington Associates*, 483 F.2d 247, 250 (2d Cir. 1973); *Mo. Portland Cement Company* v. *Cargill, Incorporated*, 2d Cir. Slip Op. Nos. 1090 and 1091 at p. 4075 (June 10, 1974).

The rule is the same in antitrust as in other cases, since the standards for the issuance of preliminary relief in Section 16 of the Clayton Act are declaratory of the ordinary equitable standards. *Zenith Corp.* v. *Hazeltine*, 395 U.S. 100, 130 (1969); *Hamilton Watch Co.* v. *Benrus Watch Co.*, 206 F.2d 738, 742-43 (2d Cir. 1953).

In the instant matter, the decision below was made on the assumption at this juncture that SCM would be able to make the strongest conceivable showing of likelihood ultimate success on the merits at any evidentiary hearing that might be held. Thus, Xerox cannot sustain its position that a hearing would be an "essay in futility" (E404), unless it can demonstrate that it is inconceivable, as a matter of law, that SCM can prove any "possible irreparable injury." Yet in denying SCM's motion without having held an evidentiary hearing, the court below necessarily reached that conclusion. The conclusion that it is impossible that a competitor in the target area will be irreparably injured by the manifold violations here alleged flies in the face of common experience and legal logic.

The court improperly made findings of fact concerning irreparable injury. To the limited extent that the court below considered SCM's claims of irreparable injury, it resolved them against SCM only by making factual determinations. The court thus disregarded demurrer and Rule 12(b)(6) principles since it held no hearing on disputed factual issues. The court also violated the principles expressed by this Circuit in *Securities and Exchange Commission* v. *Spectrum, Ltd.*, 489 F.2d 535, 540-41 (2d Cir. 1973); and *Dopp* v. *Franklin National Bank*, 461 F.2d 873, 879 (2d Cir. 1972).

First, concerning Xerox's restrictive employment agreements which help maintain Xerox's control over 95% of the world's personnel skilled in xerography, the court held that the issues presented were moot. We have already discussed the evidence submitted by SCM showing that the issues raised were not moot (pp. 18-19 above), but the court disregarded this evidence.

Secondly, concerning the representations and offers to compromise made by Xerox as to its past threats of patent litigation and refusals of SCM's requests for patent licensing, the court held that SCM's claims of irreparable injury were thereby "undermined" (A137). Even though the court noted in part the inadequacy of Xerox's undertaking since it was "not necessarily sufficient to give SCM worldwide protection", the court held that Xerox's offer nevertheless was sufficient "to erode any claim of irreparable injury below the level where equitable relief would be appropriate" (A138). The court here was plainly engaging in the type of balancing process that should be done only on a factual record.

Moreover, it was plain error to rely on Xerox's undertaking without holding a hearing. The court must make its own determination of whether the relief which Xerox offers to reduce SCM's irreparable injury is in fact sufficient, and a hearing is required before the court can make such a determination. This is the direct holding of *United States* v. *Columbia Steel Co.,* 71 F.Supp. 734 (D.Del. 1947), where the court in a Section 2 case rejected the defendant's effort to prevent a hearing on the government's motion for a preliminary injunction by making a unilateral offer not to proceed with the consummation of a proposed acquisition. The court held that the scope and extent of preliminary relief was a matter to be decided after evidentiary hearing, and that even if the defendant's offer ultimately proved sufficient, such sufficiency could be determined only on an evidentiary record.

Third, the court below made reference to SCM's hope to have developed by 1975 its own copier and to its contract with Van Dyk to purchase copiers. The court concluded that SCM's claim of irreparable injury was "undermined by its acknowledged capacity to bring a plain paper copier onto the market" (A137). The fact that SCM is presently marketing the Van Dyk copier is only evidence of SCM's "acknowledged capacity" to enter into a contractual arrangement with another company and attempt to enter the business as a fledgling competitor on the marketing level.

It says nothing about SCM's ability to succeed, to make sales, to earn profits, to compete with Xerox, or even its ability to survive in this business. Yet the court expressly held, as a matter of fact, that SCM's claims of injury are insufficient because of the Van Dyk contract. Here again, plainly, the court made factual determinations in the absence of a record.[1]

It cannot be disputed that the court below acted as a fact-finder. However, the factual issues presented should be resolved only upon an evidentiary hearing, which the court below denied.

C. The relief SCM sought is appropriate.

In the circumstances, it cannot be doubted that the district court has broad power to fashion and grant a wide range of remedies.

Xerox below argued that the relief SCM seeks is not available as a matter of law because it would improperly change the *status quo*. But in fact, the bulk of the relief sought by SCM below was relief designed to preserve the *status quo*, as that term is understood in the most traditional manner. Most of the relief sought was prohibitory in form and asked that Xerox be restrained from committing acts in the future that would likely violate the antitrust laws and injure SCM. Each of the particular forms of relief described in ¶¶ 49 to 53 of the amended complaint (A91-92) (described at pages 8-9, above), whether prohibitory or mandatory in form[2] are designed to maintain

[1] The court seemed to make the alternative holding that SCM's harm would in any event be plainly compensable in money damages (A137). But measuring the harm in dollars to SCM, involving a projection of what the market would look like absent Xerox's antitrust violations and how well SCM would have done in such a market is a process fraught with uncertainty. This Court has squarely held that uncertainty in the measure of damages means that money damages is an inadequate remedy and, therefore, that the harm in question is "irreparable." *Danielson* v. *Local 275*, 479 F.2d 1033, 1037 (2d Cir. 1973). See also E449-52.

[2] As Chief Justice (then Circuit Judge) Taft explained the well-established equitable principles, the *status quo* can be pre-

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the *status quo* at the commencement of the action—to prevent Xerox from enlarging its existing technological, manufacturing and marketing leads over SCM, one of its competitors. Also, each of the five forms of relief described at page 16 above, as well as the other more particularized relief, described at page 17 above (all prohibitory in form), seek to restrain Xerox from enlarging its power in various ways that, as must be assumed here, would violate the antitrust laws.

The relief SCM seeks as to Rank-Xerox (set forth at pp. 16-17 above), is proper as conceded by Xerox itself. Xerox asserted in its brief that the preliminary relief often found appropriate in cases challenging acquisitions is "typically illustrated by the interlocutory prohibition of the consummation of a corporate acquisition alleged to be unlawful *or of the use of already acquired stock.*" (E376; emphasis supplied).

SCM here seeks to enjoin the "use of already acquired stock" (see item (d) at p. 17 above). The other forms of relief SCM seeks respecting Rank-Xerox (p. 16) are all more specific forms of relief designed to prohibit the use of or the benefit from the stock.

In *United States* v. *Aluminum Company of America*, 1962 Trade Cas. ¶ 70,419 (E.D. Mo.), Alcoa had acquired the stock of Cupples, a purchaser of aluminum. Fifteen months later the government challenged the acquisition under Section 7 of the Clayton Act and fourteen months after that it sought preliminary relief. The court granted relief intended to freeze the existing situation by anesthetizing Alcoa's control of Cupples. The relief included prohibitory restraints against further consolidation or comingling of assets and mandatory relief requiring Cupples to exercise independent judgment in its operation.

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served, as may be required by the circumstances, either by preliminary injunctive relief which is prohibitory in form, or which is mandatory in form. *Toledo, A.A. & N.M. Ry. Co.* v. *Pennsylvania Co.*, 54 Fed. 730, 741 (CC N.D. Ohio, 1893).

Such "hold-separate" orders are common in Section 7 cases where consummation of the transaction is permitted (or not undone) but the acquired company is restrained from obtaining the benefits of the acquisition during the pendency of the action.[1]

Xerox's concession of the propriety of a preliminary restraint against "the use of already acquired stock" applies as well to the use of already acquired assets when it it is the acquisition of assets that is challenged under Section 7 of the Clayton Act or Sections 1 or 2 of the Sherman Act. Just as it is proper to anesthetize or "sterilize" the use of stock (*Electronic Specialty* v. *International Controls Corp.*, 409 F.2d 937 (2d Cir. 1969)), the district court may properly "sterilize" the use by Xerox of its illegal acquisitions or aggregations of patents and unpatented technology. Thus, SCM asked in paragraph 49 of its amended complaint that Xerox be restrained from threatening, instituting or maintaining any patent infringement action against SCM with respect to SCM's efforts to develop and market plain paper office copiers (A91). SCM asked in paragraph 51 of its amended complaint that Xerox be mandatorily enjoined to grant SCM a license with respect to all of its United States and foreign patents and patent applications during the pendency of the law suit[2] (A92). SCM also asked in its brief that it be given

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[1] Other examples include *Allis-Chalmers Mfg. Co.* v. *White Consolidated Industries, Inc.*, 414 F. 2d 506 (3rd Cir. 1969), *cert. denied*, 369 U.S. 1009 (1970), where defendant was enjoined from acquiring any additional stock and from voting the stock it had already acquired; *United States* v. *American Technical Industries, Inc.*, 1974 Trade Cas. ¶ 74,873 (M.D. Pa.); *United States* v. *Aluminum Company of America (Rome Cable)*, 1960 Trade Cas. ¶ 76,830 (N.D.N.Y.); *United States* v. *Brown Shoe Company, Inc.*, 1956 Trade Cas. ¶ 71,109 (M.D. Mo.).

[2] SCM also suggested forms of lesser relief that the court might award if it declined to mandate licensing of all Xerox patents. For example, the court could require licensing *pendente lite* only of the patents Xerox has acquired from third parties and not of the patents Xerox developed itself (E485-86). Similarly, the court might direct licensing only of the patents practiced by Xerox in

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access to Xerox's unpatented technology (E486-87), especially important in the light of Xerox's own belief as to the competitive importance of that know-how (see page 37 above).

As to future acquisitions by Xerox of patented or unpatented technology, a judicial direction that SCM have access to it would be less onerous to Xerox than restraining it entirely from consummating such acquisitions—although such a prohibition, included in the preliminary relief which SCM requested in its briefing below, is also appropriate, as Xerox has admitted (E376).

The court below held that a restraint against Xerox from instituting patent litigation against SCM was unavailable because it would improperly alter the *status quo* (A137). The court's opinion in this regard was an abrupt about-face upon its own views at the oral argument below:

> "The notion of telling a defendant that they can't enforce some right during the course of a lawsuit is not an alien notion. Now, you are quite right that has the effect of conveying some rights, but it wouldn't be the first time, I don't think, that a court preliminarily had told a defendant that they couldn't enforce a document or agreement that they understood was an enforceable agreement at the outset of the litigation." (E599-600)

Moreover, the district court's holding concerning *status quo* was wrong for another fundamental reason. It is incorrect to treat the *status quo*, regardless of how it is viewed, as sacred. See *National Association of Letter Car-*

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connection with its new and unique products (E484-85). Another form of relief requested by SCM below (E484) that would go far towards reducing the effects of Xerox's overwhelming technological base would be to require Xerox to sell its unique products to competitors. While such relief would not stimulate competition regarding either research or manufacturing, it would stimulate competition on the marketing level until such time as competitors have the opportunity to develop their own relevant technology.

riers v. *Sombrotto,* 449 F.2d 915, 921 (2d Cir. 1971), where Chief Judge Friendly cautioned against the mechanistic application of generalities such as the one that the traditional function of a preliminary injunction is to preserve the *status quo.* See also his opinion in *Omega Importing Corp.* v. *Petri-Kine Camera Co.,* 451 F.2d 1190, 1197 (2d Cir. 1971).

Equally to the point here, "a common exception to the *status quo* rule is found in cases involving acts prohibited by statute." Courts generally "have explained that the *status quo* could never be a condition of affairs where the respondent would be permitted to continue the acts constituting that violation." Developments in the Law-Injunctions, 78 Harv.L.Rev. 994, 1057 (1965).

In *Danielson* v. *Local 275,* 479 F.2d 1033, 1037 (2d Cir. 1973), picketing which existed at the commencement of the suit had been going on for three months before suit was commenced. That picketing was enjoined because "the failure to issue an injunction here maintains not the *status quo* but protects what the court below has found the Regional Director had reasonable ground to believe is a violation of the statute."

Thus, in this Circuit, the *status quo* has never been treated as other than one of several factors to be considered in the weighing and balancing process involved in setting preliminary relief.[1]

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[1] *E.g.,* in *Interphoto Corporation* v. *Minolta Corporation* (S.D.N.Y. 1969; unreported, see E566-74), Judge Herlands first maintained the status quo by requiring Minolta to continue dealing with Interphoto in the territory specified in their agreement. Secondly, in his supplementary order granting relief which had not been originally requested (see fn. at p. 25 above), Judge Herlands changed the *status quo* by requiring Minolta to make deliveries to Interphoto in 13 states where it had never agreed before to make deliveries to Interphoto, in order to prevent Minolta from placing unlawful restraints on Interphoto. This court affirmed, 417 F.2d 621-622 (2d Cir. 1969).

In *Unicon Management Corp.* v. *Koppers Co.,* 366 F.2d 199, 204 (2d Cir. 1966), the plaintiff had managed a division of defendant

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The court below also treated the *status quo* as sacred when it denied the request in ¶ 52 of the amended complaint that Xerox be mandatorily enjoined to disclose to SCM during the pendency of the action its short and long range plans for the manufacture and marketing of its copiers (A92, 135). While the secrecy of confidentially maintained plans may ordinarily be legally protectable, Xerox's secrets and the market information these plans contain are the fruits of Xerox's unlawful acts. This relief is proper under Judge Hand's teaching in *Alcoa* that a monopolist has no lawful right to expand its activities to satisfy future market needs (148 F.2d at 431). The plans here show the very course of action, in violation of section 2, by which Xerox expects to maintain and enlarge its power.

Access to these plans will lessen the tremendous informational gap that exists between Xerox and its actual and potential competitors. Also, with knowledge of Xerox's plans SCM can better attempt to keep some pace with Xerox and have a fairer opportunity to compete in the years ahead.

The court below stated that if Xerox wins this suit, the plans cannot be returned to secrecy and thus the change in the *status quo* would be "irrevokable" (A135). But it is a matter of business routine to enter into confidential disclosure agreements or licenses of trade secrets without destroying the secrecy of the subject matter. The court here did not even explore the possibility of protecting Xerox in this regard with a direction to SCM to return

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for the long period of time since that division's acquisition by defendant, and this state of affairs was changed when defendant was enjoined *pendente lite* from denying plaintiff the right to manage the division. Judge Lumbard there wrote for the Court that other courts "have granted preliminary relief without regard to establishing the *status quo,* as long as there was a showing of potential irreparable harm. . . ." He relied on *Ross-Whitney Corp.* v. *Smith, Kline & French Lab.,* 207 F.2d 190, 199 (9th Cir. 1953). See also *Dino de Laurentiis Cinematografica S.p.A.* v. *D-150, Inc.,* 366 F.2d 373 (2d Cir. 1966); *Stell* v. *Savannah-Chatham County Bd. of Ed.,* 318 F.2d 425 (5th Cir. 1963).

and not use the information at the end of the case if SCM should lose, with a bond, or with other means. The court erred when it summarily held it lacked power to require disclosure of the plans regardless of the showing made at a hearing.

Highly pertinent to the relief here sought concerning licensing of Xerox's patent thicket and restraints against patent enforcement by Xerox is the preliminary relief granted by Judge Higginbotham in *Philadelphia World Hockey Club, Inc.* v. *Philadelphia Hockey Club, Inc.*, 351 F.Supp. 457 (E.D.Pa. 1972).

There, the standard form of player contract used by member teams in the National Hockey League ("NHL") contained a "reserve clause." Members of NHL's infant competitor, the World Hockey Association ("WHA"), had entered into agreements with over 200 NHL players who thereby violated the reserve clause. Seven such players had been made defendants in contract actions brought by NHL teams.

Plaintiff claimed that the NHL had monopolized professional hockey, and sought preliminary relief against enforcement of the reserve clause. The court found that while there were genuine issues of material fact that required full trial on the merits (351 F.Supp. at 467), nevertheless the court was confident that the plaintiff would ultimately succeed (*id.* at 504). The court stated that although the NHL had not prevented the birth or caused the demise of the WHA, "the operation of the antitrust laws need not be delayed until one is trying to resurrect the dead; these laws are designed to conserve living competitors" (351 F.Supp. at 510).

The court went on preliminarily to enjoin the NHL and its members from commencing any new actions to enforce the reserve clause or from further prosecuting the existing actions. In effect, the NHL teams' contract rights to their players were suspended during the pendency of the action and the WHA was allowed unrestricted access to NHL players (351 F.Supp. at 519).

Similarly, Xerox's patent rights to exclude others from "using, making or selling" the patented inventions may be restrained during the pendency of the action. Likewise, the post-employment restrictive clauses contained in both of its forms of employment agreements with its personnel may be restrained during the pendency of the action, just as the NHL's enforcement of its reserve clause was suspended.

The court below attempted to avoid the force of the decision in the *Hockey* litigation by asserting that it is distinguishable from the instant case because "at issue was a precise practice of the defendant, the reserve clause in players' contracts, rather than the defendant's overall monopoly power" (A132-33). This distinction is without merit. First, SCM also puts in issue precise practices by Xerox. The fact that there are many, rather than one, does not diminish, but increases, the force of SCM's claimed right to an evidentiary consideration of its preliminary injunction motion.

Secondly, "overall monopoly power" was in issue before Judge Higginbotham. He made extensive findings of fact on an extensive record concerning the business of professional hockey as a whole, thereby resolving hotly contested issues (351 F. Supp. at 467, 477-88), and did conclude on the basis of the extensive findings that the NHL and its members had such "overall monopoly power" that relief against specific practices was warranted. Thus, the scope of the issues there was no narrower than here, even if the scope of the relief there sought was more limited.

Paraphrasing Judge Higginbotham's decision in the *Hockey* case, absent preliminary relief, the injury to SCM "might very well be the loss of any place in the gallery" of plain paper office copier competition. In contrast, if Xerox "sustains a loss by the preliminary injunction herein being granted, [it] would still have both prominence and first place in this gallery, and even when losing, the diminution of its relative stature will be almost minor. . . ." (351 F.Supp. at 514.)

Summary.

The court below erred in denying SCM's request for an evidentiary hearing on its preliminary motion and thereby erred in denying SCM's motion for a preliminary injunction as a matter of law.

POINT III

Xerox's alleged defense of laches is misplaced and, at minimum, involves issues of fact which cannot be decided as a matter of law.

Although the court below did not pass on it, Xerox argued, in effect, that because SCM first requested and was refused a plain paper license from Xerox in 1963 (a request which subsequently was repeatedly renewed and refused), SCM is not entitled as a matter of law to any preliminary injunctive relief. Xerox attempted to convert the vice of its alleged illegal refusals to deal into a complete defense to any relief for SCM during the pendency of the action.

Xerox's contentions fly in the face of the long-established principle expressed by Judge Sanborn that "even acquiescence in past continuing injury does not estop their victim from enjoining their future continuance." *Love* v. *Atchison, Topeka & Santa Fe R.R. Co.*, 185 Fed. 321, 332 (8th Cir. 1911).[1] See *International Telephone & Telegraph Corp.* v. *General Telephone & Electronics Corp.*, 296 F.Supp. 920 (D.Haw. 1969), holding a laches defense unavailable as a matter of law in a private antitrust case.

But even if Xerox attempts to advance this defense, in light of the above principles of law and the absence even of a claim of prejudice, it involves questions of fact. SCM will show that it has not been sitting on its hands. As its

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[1] The decision in that case was expressly approved in *Ohio Oil Co.* v. *Conway*, 279 U.S. 813, 815 (1929). (See also Judge Frank's extensive quotation from *Love* in *Hamilton Watch*, 206 F.2d at 743 fn. 10; *United States* v. *American Technical Industries, Inc.*, 1974 Trade Cas. ¶ 74,873 at p. 95,870 (M.D. Pa.).)

counsel stated, SCM will show that it alerted the Federal Trade Commission to the illegality of Xerox's anti-competitive acts and practices in the plain paper office copying market, and that from 1966 to 1969 it urged that agency to take action against Xerox (E666).

Thereafter, when the Commission announced its investigation of Xerox in 1969, and then its action against Xerox in 1972, there was the hope that Xerox in response would change its practices. That hope was short-lived. Xerox's chief executive officer characterized the Commission proceedings as a "nuisance" (A62). He promised that Xerox "will fight every aspect of that case," and, most important of all to SCM, he stated that Xerox is not "changing anything" about the way it does business (A62, E144-145).

Shortly after these expressions by Xerox—when it became apparent that relief in the Commission proceedings is many years distant (A61-A62)—SCM commenced this action as its only remaining hope that some way existed to obtain relief against Xerox before it is too late (E666).

CONCLUSION

Pre-Trial Ruling No. 6 should be vacated, and the matter should be remanded to the district court with instructions for a prompt evidentiary hearing on SCM's preliminary injunction motion.

Respectfully submitted,

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July 1, 1974

(56256)

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

SCM CORPORATION,

Plaintiff-Appellant,

-against-

XEROX CORPORATION,

Defendant-Appellee.

State of New York,
County of New York,
City of New York—ss.:

Robert S. Marin, being duly sworn, deposes and says that he is over the age of 18 years. That on the 1st day of July, 1974, he served four copies of Brief of Plaintiff-Appellant SCM Corporation on Kaye, Scholer, Fierman, Hays & Handler, the attorneys for Defendant-Appellee by causing same to be ~~for~~ delivered to and left ~~by delivering to and leaving same~~ with a proper person in charge of their office at 425 Park Avenue, New York, N. Y. 10022 in the Borough of Manhattan, City of New York, between the usual business hours of said day.

Robert S. Marin

Sworn to before me this

1st day of July, 1974.

Courtney J. Brown

COURTNEY J. BROWN
Notary Public, State of New York
No. 31-5472920
Qualified in New York County
Commission Expires March 30, 1976